UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA

SANDRA K. SHOEMAKER, Individually and On Behalf of All Others Similarly Situated, Plaintiff, v. CARDIOVASCULAR SYSTEMS, INC., DAVID L. MARTIN, and LAURENCE L. BETTERLEY, Defendants.	Court File No. **CLASS ACTION COMPLAINT** **JURY TRIAL DEMANDED**

Plaintiff, Sandra K. Shoemaker ("Plaintiff"), individually and on behalf of all others similarly situated, by and through Plaintiff's counsel, alleges the following based upon personal knowledge as to Plaintiff's own acts, and upon an investigation conducted by and through Plaintiff's attorneys, which included, among other things, a review of the filings Cardiovascular Systems, Inc. ("CSI" or the "Company") with the United States Securities and Exchange Commission ("SEC"), Company news releases and conference calls, public statements issued by Defendants, securities analyst reports, and media and industry reports. Plaintiff believes that substantial additional evidentiary support will exist for the allegations set forth herein after Plaintiff has had a reasonable opportunity to conduct discovery.

NATURE OF THE ACTION AND OVERVIEW

1. This is a federal securities class action on behalf of all persons who purchased CSI common stock between September 12, 2011 and January 21, 2016, inclusive (the "Class Period"), seeking to pursue remedies under the Securities Exchange Act of 1934 (the "Exchange Act").

2. CSI, a Delaware corporation headquartered in St. Paul, Minnesota, develops and manufactures medical devices for the treatment of peripheral and coronary arterial diseases.

3. The Company's principal products and major sources of revenue are its peripheral arterial disease ("PAD") systems, which are catheter-based platforms capable of treating various types of plaque in leg arteries. The Company's chief products include: (i) the Stealth 360° Peripheral Orbital Atherectomy System ("OAS") (the "Stealth 360"); (ii) the Diamondback 360° Peripheral OAS (the "Diamondback 360 Peripheral"); and (iii) the Predator 360° PAD System (the "Predator 360") (collectively, the "PAD Systems").

4. Throughout the Class Period, Defendants made false and misleading statements and failed to disclose material adverse facts about the Company's business and operations. Specifically, Defendants falsely touted CSI's code of ethics while failing to disclose that the Company relied upon illegal kickbacks, off-label promotions, and other violations of applicable laws and regulations in order to drive sales of its products.

5. On July 15, 2013, a former CSI sales manager initiated an action in the United States District Court for the Western District of North Carolina pursuant to the *qui tam* provisions of the Federal Civil False Claims Act, 31 U.S.C. § 3729, *et seq.* (the "False Claims Act") and the *qui tam* provisions of twenty-seven States and the District of Columbia. *See United States ex rel. Thams v. Cardiovascular Systems, Inc.*, No. 13-cv-00404 (W.D.N.C. filed July 15, 2013) (the "*Qui Tam* Action").[1]

6. According to the complaint filed in the *Qui Tam* Action, "CSI has successfully engaged in a fraudulent marketing scheme . . . to maximize its profits through an ongoing ***pattern of fraud and deception involving illegal kickbacks, off-label promotion, and violations***

[1] The *Qui Tam* Action was under seal until July 8, 2015. The complaint filed in the *Qui Tam* Action is incorporated by reference herein and is attached hereto as Exhibit A.

of FDA laws and regulations in connection with its medical devices used for the treatment of Peripheral Arterial Disease[.]"[2] Exhibit A at 2.

7. The complaint in the *Qui Tam* Action further asserts that CSI "continues to engage in a broad, unlawful scheme to increase the sales of its Diamondback 360 [Peripheral] device, Predator 360 device, and Stealth 360 device" in order to inflate the value of the Company's stock and attract investors and that CSI "***utilized its sales force to illegally promote the off-label sales*** and use of its medical devices in order to obtain reimbursement for non-FDA-approved indications and ***maximize profits through false and fraudulent statements***." *Id.* at 7.

8. As described by the complaint filed in the *Qui Tam* Action, CSI executed its scheme of off-label promotion primarily through the use of unlawful kickbacks paid to doctors and other medical personnel. Those kickbacks included:

> "free" all-expense-paid training programs followed by explicit demands by CSI employees that attendees use CSI products on future patients; selling using reimbursement calculators to show physicians could maximize[] their financial return by using CSI devices, including for unnecessary procedures; "free" product to induce the purchase of other product; referral channel marketing, th[r]ough which CSI would target third-party physicians to refer patients to physicians who would use CSI devices in return for these referrals; substantial assistance to help physicians open outpatient cardiac catheterization labs ("OBLs"); and sham Speaker Bureau payments for high-prescribers and others whom CSI sought to cultivate.

Id. at 7-8.

9. In regard to CSI's off-label marketing of its PAD Systems, the complaint in the *Qui Tam* Action asserts that the off-label marketing included: (i) "promotion of CSI's PAD devices for use with a smaller catheter" than approved; and (ii) promotion of Company devices "for use in areas of the body (*e.g.*, coronaries and the arms) and disease states (*e.g.*, chronic total

[2] All emphases herein are added unless noted otherwise.

occlusions) for which the devices lacked FDA-approval." *Id.* at 8. That off-label marketing "induced physicians to use and obtain reimbursement for use of CSI medical devices on patients covered by Medicare, Medicaid, and other government payors." *Id.* As such, CSI's scheme of using unlawful kickbacks and its sales force to promote the off-label sales and use of its PAD Systems "involved the unlawful making of false records or statements and/or causing false claims to be submitted for the purpose of getting the false records or statements to obtain payment or reimbursement of false or fraudulent claims" in violation of the False Claims Act and various State equivalents of the False Claims Act. *Id.* at 8-9.

10. After the close of the market on May 9, 2014, the Company revealed that it had "received a letter from the U.S. Attorney's Office for the Western District of North Carolina stating that it is investigating the Company to determine whether the Company has violated the False Claims Act, resulting in the submission of false claims to federal and state health care programs, including Medicare and Medicaid."

11. On this news, the price of Company shares declined $1.62 per share, or nearly 6%, from a close of $29.05 per share on May 9, 2014, to close at $27.43 per share on May 12, 2014.

12. On April 29, 2015, the Company announced its third quarter fiscal 2015 financial results,[3] disclosing that year-over-year quarterly operating costs had grown 28% due in large part to the added costs of a new sales initiative in which the Company was greatly expanding and providing new training to its sales force.

[3] The Company's fiscal year begins on July 1 of each calendar year.

13. On this news, the price of Company shares declined $3.52, or more than 10%, from a close of $34.82 per share on April 29, 2015, to close at $31.30 per share on April 30, 2015.

14. On August 5, 2015, the Company announced its fourth quarter fiscal 2015 financial results and reported revenue of $48.5 million, which fell short of the Company's forecasted range of between $49.0 million and $50.5 million. The Company attributed the guidance miss to its continued sales force expansion and training efforts.

15. On this news, the price of Company shares declined $6.13 per share, or nearly 21%, from a close of $29.35 per share on August 5, 2015, to close at $23.22 per share on August 6, 2015.

16. Then, on October 7, 2015, the Company announced preliminary financial results for the first quarter of fiscal 2016, reporting expected revenue of $43.9 million, which was again below the Company's prior revenue guidance of between $48.5 million and $50.0 million. The Company once more attributed the weak results to the challenges it faced in expanding and training its sales force.

17. On this news, the price of Company shares declined $3.01 per share, or more than 18%, from a close of $16.63 per share on October 7, 2015, to close at $13.62 per share on October 8, 2015.

18. Finally, on January 21, 2016, the Company announced its second quarter fiscal 2016 financial results, reporting revenue of $41.4 million, below the Company's expected range of between $42.5 million and $44.0 million. The Company attributed the guidance miss to the "continued effects of the sales force transition."

19. On this news, the price of Company shares declined $3.72 per share, or nearly 30%, from a close of $12.46 per share on January 21, 2016, to close at $8.74 per share on January 22, 2016.

JURISDICTION AND VENUE

20. The claims asserted herein arise under Sections 10(b) and 20(a) of the Exchange Act, 15 U.S.C. §§ 78j(b), and 78t(a) and the rules and regulations promulgated thereunder, including SEC Rule 10b-5, 17 C.P.R. § 2401.10b-5.

21. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§ 1331 and 1337, and Section 27 of the Exchange Act, 12 U.S.C. § 78aa.

22. Venue is proper in this District pursuant to Section 27 of the Exchange Act, 15 U.S.C. §§ 78aa, and 28 U.S.C. § 1391(b). Many of the acts and transactions alleged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this District. Additionally, CSI's principal executive offices are located within this District.

23. In connection with the acts, conduct, and other wrongs alleged in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications, and the facilities of the national securities markets.

PARTIES

24. Plaintiff, Sandra K. Shoemaker, as set forth in the accompanying certification attached as Exhibit B, incorporated by reference herein, purchased CSI common stock at artificially inflated prices during the Class Period and has been damaged thereby.

25. Defendant CSI is a Delaware corporation with its principal executive offices located at 1225 Old Highway 8 Northwest, St. Paul, Minnesota. The Company's common stock trades on the NASDAQ under the ticker symbol "CSII."

26. Defendant David L. Martin is, and was throughout the Class Period, the Company's President and Chief Executive Officer.

27. Defendant Laurence L. Betterley is, and was throughout the Class Period, the Company's Chief Financial Officer.

28. Defendants Martin and Betterley are collectively referred to hereinafter as the "Individual Defendants." The Individual Defendants, because of their positions with the Company, possessed the power and authority to control the contents of the Company's reports to the SEC, press releases, and presentations to securities analysts, money and portfolio managers, and institutional investors, *i.e.*, the market. Each Defendant was provided with copies of the Company's reports and press releases alleged herein to be misleading prior to or shortly after their issuance, and had the ability and opportunity to prevent their issuance or cause them to be corrected. Because of their positions and access to material non-public information available to them, each of these Defendants knew that the adverse facts specified herein had not been disclosed to, and were being concealed from, the public, and that the positive representations which were being made were then materially false and misleading. The Individual Defendants are liable for the false statements pleaded herein, as those statements were each "group-published" information, the result of the collective actions of the Individual Defendants.

SUBSTANTIVE ALLEGATIONS

Background

29. CSI is a medical device company which designs and manufactures systems to treat patients suffering from peripheral and coronary arterial diseases.

30. CSI operates in a highly regulated environment which governs the allowable uses of its medical devices and prohibits the use of kickbacks to medical professionals to drive sales of such devices. First and foremost, the Federal Food, Drug, and Cosmetics Act (the "FDCA") regulates the approval and marketing of medical devices, including the Company's products. *See* 21 U.S.C. § 301, *et seq.*

31. Under the FDCA, no medical device may be marketed in the U.S. without the approval of the FDA for its intended use. *See* 21 U.S.C. § 360. Specifically, the FDA only approves a medical device for specific "intended uses"—that is, "the objective intent of the persons legally responsible for the labeling of the devices." 21 C.F.R. § 801.4. The approval process of new medical devices is often time-consuming and expensive. Even so, medical device manufacturers can sometimes avoid the FDA's approval process by seeking "510(k)" clearance from the FDA based upon the prior approval of a substantially equivalent device. 21 U.S.C. § 360(k); 21 C.F.R. § 807.87. When submitting a 510(k) application, the manufacturer must also submit to the FDA a description of the device that includes the intended uses of the device, the conditions the device is designed to treat, and the relevant patient population. 21 C.F.R. § 807.92(a)(5).

32. Obtaining 510(k) clearance allows the manufacturer to promote the use of the product only for the intended uses listed on the 510(k) application. 21 U.S.C § 352(f); 21 C.F.R. § 801.5; 21 C.F.R. § 807.97. Those intended uses must in turn be listed on the product's label. 21 U.S.C. § 352. Promoting a device for any use not approved or cleared by the FDA or for any use not indicated on the label constitutes prohibited off-label promotion. *See* 21 U.S.C § 331(d).

33. In August 2007, the FDA granted CSI 510(k) clearance for the use of the Diamondback 360 Peripheral as a therapy for patients with PAD. CSI thereafter received 510(k) clearance for the Predator 360 in March 2009 and the Stealth 360 in March 2011.

34. Separately, the Anti-Kickback Statute (the "AKS") prohibits the payment and receipt of kickbacks in return for either procuring or recommending the procurement of a good, facility, or item to be paid in whole or in part by a federal healthcare program. *See* 42 U.S.C. § 1320a-7b(b).

35. Compliance with the AKS is a necessary condition for receiving payment from federally-funded healthcare programs, including: Medicare; Medicaid; and TRICARE. *See id*. In fact, federally-funded healthcare programs require medical providers to sign certifications attesting to the legality of the transactions underlying any requests for federal reimbursement. For purposes of the False Claims Act, a "claim that includes items or services resulting from a violation of" the AKS "constitutes a false or fraudulent claim." 42 U.S.C. § 1320a-7b(g).

Materially False and Misleading
Statements Issued During the Class Period

36. The Class Period begins on September 12, 2011, to coincide with the filing of the Company's annual report for the year ended June 30, 2011, filed on Form 10-K with the SEC (the "2011 Annual Report"). The 2011 Annual Report, which was signed by Defendants Martin and Betterley, assured investors that the Company's internal control over financial reporting was effective as of June 30, 2011. The 2011 Annual Report was also accompanied by signed certifications, as required by the Sarbanes-Oxley Act of 2002 ("SOX"), by Defendants Martin and Betterley, who both certified that the 2011 Annual Report "does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading."

37. The Company also attached its "CODE OF ETHICS AND BUSINESS CONDUCT" (the "Code of Ethics") as Exhibit 14.1 to the 2011 Annual Report. The Code of Ethics stated in relevant part (all emphases in original):

> Bribery, kickbacks or other improper or illegal payments have no place in CSI's business.
>
> * * *
>
> ***Business Courtesies and Gratuities***
>
> **CSI's policy is not to offer or accept kickbacks or bribes, or gifts of substantial value.**
>
> CSI Representatives may only exchange non-monetary and modestly-valued gifts that promote goodwill with our business partners and do not improperly influence others. We will accept only approved and widely available discounts and do not encourage, accept or exchange gratuities or payments for providing services to others.
>
> Business courtesies such as meals, transportation and entertainment provided to a vendor, supplier, customer or other business associations must be modest in amount and related to a legitimate business purpose (e.g., explanation or demonstration of CSI products, application of products, service capabilities, or training). Such courtesies must not violate the law, regulations, or reasonable customs of the market-place. If you have any question about whether any business courtesies, gratuities or gifts are appropriate, please contact your supervisor or other CSI management. **CSI's [Standard Operating Procedure ("SOP")] for guidance when having interactions with Health Care Professionals or customers because there is a general prohibition on most gifts to Health Care Professionals and customer.**
>
> **CSI's Representatives having relationship with Customers and Health Care Professionals have a separate SOP for guidance as these relationships are highly regulated**
>
> Representatives must deal fairly and honestly with the Company's customers (including potential customers and Health Care Professionals or entities in a position to recommend or influence the purchase or use of Company products) and not take actions that are prohibited by applicable law or ethical standards. The Company intends to follow its own company-established "CSI's

Standard Operating Procedures For Interactions With Health Care Professionals" . . . which are largely based upon the standards set forth by AdvaMed in its Code of Ethics on Interactions with Health Care Professionals - Revised and Restated Code of Ethics effective July 1, 2009 which is found at http://www.advamed.org. All Representatives who deal with customers and Health Care Professionals are separately required to read and understand the SOP and sign an acknowledgement related thereto.

The SOP is intended to provide Representatives guidance about appropriate interactions with customers and Health Care Professionals when conducting business within the United States to enable the Company to remain in compliance with the Federal Anti-kickback Statute and Stark Law. Representatives conducting business on behalf of CSI, must also comply with this SOP and these policies apply to any expenditure by CSI Representatives, regardless of whether the expenditure is reimbursed by the Company. In other words, any "personal" money given to or spent for the benefit of a CSI customer is considered money given or spent by the Company.

As used in this Code, and the Guidelines, the term "customer" means any individual or organization that purchases, recommends, uses, or prescribes products manufactured or distributed by CSI or an individual who is in a position to determine whether a CSI product is purchased, recommended, used, or prescribed. This can include physicians, nurses, office administrators, purchasing agents, within hospitals, clinical practices, HMOs, GPOs, etc.

The following general standards and principles should at all times guide our interactions with customers and Health Care Professionals:

- CSI will encourage ethical business practices and socially responsible industry conduct, and will not use any unlawful inducement in order to sell, recommend or arrange the sale, or prescription of its products.

- At CSI, we believe that enduring customer relationships are based on integrity and trust. We seek to gain advantage over competitors through superior products, research, engineering, manufacturing, marketing and service, never through improper business practices.

- CSI's relationships with customers are intended to benefit patient care and enhance the practice of medicine.

> Interactions should be focused on informing customers and prospective customers about products, providing scientific and educational information, and supporting medical research and education and should not, at any time, entice representatives of customers to place their own personal interests above those of the organizations they represent or the patients who will use or need the Company's products.
>
> - CSI will not, directly or indirectly, offer or solicit any kind of payments or contributions for the purpose of obtaining, giving, keeping or rewarding business.
>
> **No Payments in exchange for business**
>
> Representatives may not make payments to customers or provide meals, travel expenses, entertainment, gifts, or other benefits to customers or Health Care Professionals in exchange for the customer's agreement to purchase products or services from the Company, or as a reward for the purchase of products or services, nor may Representatives provide benefits to a customer's friends, relatives, or organizations closely affiliated with the customer in exchange for or as a reward for such business. See **CSI's SOP for guidance when having interactions with Health Care Professionals or customers because any and all entertainment and recreation with Health Care Professionals or customers is prohibited and there is a general prohibition on most gifts.**

38. On September 10, 2012, the Company filed its annual report for the year ended June 30, 2012, filed on Form 10-K with the SEC (the "2012 Annual Report"), which reported the Company's annual financial results and contained assurances that the Company's internal control over financial reporting was effective as of June 30, 2012. The 2012 Annual Report was also accompanied by SOX certifications signed by Defendants Martin and Betterley which were identical to the certifications contained in ¶36, *supra*.

39. On September 19, 2012, the Company filed a definitive proxy statement for its annual meeting of stockholders on Form DEF 14A with the SEC. In the proxy statement, the Company stated that it had adopted the Code of Ethics quoted *infra*, which "applies to all officers, directors and employees." Additionally, the Company stated that it "intend[s] to

maintain the highest standards of ethical business practices and ***compliance with all laws and regulations applicable to our business***."

40. On March 20, 2013, the Company conducted a secondary public offering of 2,000,000 shares of its common stock. In connection with that offering, the Company filed a prospectus on Form 424B5 with the SEC, which incorporated by reference the Company's 2012 Annual Report.

41. On September 11, 2013, the Company filed its annual report for the year ended June 30, 2013, filed on Form 10-K with the SEC (the "2013 Annual Report"), which reported the Company's annual financial results and contained assurances that the Company's internal control over financial reporting was effective as of June 30, 2013. The 2013 Annual Report was also accompanied by SOX certifications signed by Defendants Martin and Betterley which were identical to the certifications contained in ¶36, *supra*.

42. The 2013 Annual Report also stated that "[i]n providing billing and coding information to customers, we make every effort to ensure that the billing and coding information furnished is accurate and that treating physicians understand that they are responsible for all treatment decisions."

43. On October 1, 2013, the Company filed a definitive proxy statement for its annual meeting of stockholders on Form DEF 14A with the SEC. The October 1, 2013 definitive proxy contained identical statements regarding the Company's Code of Ethics as those referenced in ¶39, *supra*.

44. On November 21, 2013, the Company conducted an additional secondary offering of 2,608,696 shares of its common stock. In connection with that offering, the Company filed a

prospectus on Form 424B5 with the SEC, which incorporated by reference the Company's 2013 Annual Report.

45. On August 28, 2014, the Company filed its annual report for the year ended June 30, 2014, filed on Form 10-K with the SEC (the "2014 Annual Report"), which reported the Company's annual financial results and contained assurances that the Company's internal control over financial reporting was effective as of June 30, 2014. The 2014 Annual Report was also accompanied by SOX certifications signed by Defendants Martin and Betterley which were identical to the certifications contained in ¶36, *supra*.

46. The 2014 Annual Report also stated that "[i]n providing billing and coding information to customers, we make every effort to ensure that the billing and coding information furnished is accurate and that treating physicians understand that they are responsible for all treatment decisions."

47. On October 3, 2014, the Company filed a definitive proxy statement for its annual meeting of stockholders on Form DEF 14A with the SEC. The October 3, 2014 definitive proxy contained identical statements regarding the Company's Code of Ethics as those referenced in ¶39, *supra*.

48. On October 29, 2014, the Company issued a press release disclosing its first quarter 2015 financial results. In that release, Defendant Martin highlighted a new Company initiative to "optimiz[e] [its] sales force." Defendant Martin explained later in the day that the Company's sales force "optimization" efforts include the expansion of the Company's sales force and the provision of new training to its members, including cross-training for sales of multiple types of Company products.

49. On August 27, 2015, the Company filed its annual report for the year ended June 30, 2015, filed on Form 10-K with the SEC (the "2015 Annual Report") which reported the Company's annual financial results and contained assurances that the Company's internal control over financial reporting was effective as of June 30, 2015. The 2015 Annual Report was also accompanied by SOX certifications signed by Defendants Martin and Betterley which were identical to the certifications contained in ¶36, *supra*.

50. The 2015 Annual Report also stated that "[i]n providing billing and coding information to customers, we make every effort to ensure that the billing and coding information furnished is accurate and that treating physicians understand that they are responsible for all treatment decisions."

51. On October 9, 2015, the Company filed a definitive proxy statement for its annual meeting of stockholders on Form DEF 14A with the SEC. The October 9, 2015 definitive proxy contained identical statements regarding the Company's Code of Ethics as those referenced in ¶39, *supra*.

52. The above statements regarding the Company's business and operations were materially false and misleading. Specifically, Defendants failed to disclose that: (i) the Company was engaged in the illegal and improper off-label marketing of its PAD Systems; (ii) the Company was engaged in an illegal kickback scheme to promote its PAD Systems to medical practitioners; (iii) the Company relied on such illicit measures to drive sales of its PAD systems; and (iv) as a result, the Company's public reports and financial statements were materially false and misleading at all relevant times.

The Truth Begins to Emerge

53. On May 9, 2014, the Company disclosed that it had "received a letter from the U.S. Attorney's Office for the Western District of North Carolina stating that it is investigating the Company to determine whether the Company has violated the False Claims Act, resulting in the submission of false claims to federal and state health care programs, including Medicare and Medicaid."

54. On this news, the price of Company shares declined $1.62 per share, or nearly 6%, from a close of $29.05 per share on May 9, 2014, to close at $27.43 per share on May 12, 2014.

55. On April 29, 2015, the Company issued a press release disclosing its third quarter fiscal 2015 financial results, reporting a net loss of $10.7 million, which was an increase from $9.7 million in net losses in the prior year quarter. Defendant Martin attributed the increase in part to the Company's sales force optimization efforts. The Company also provided revenue guidance for the fourth quarter of fiscal 2015 in a range of $49.0 million to $50.5 million.

56. On this news, the price of Company shares declined $3.52, or more than 10%, from a close of $34.82 per share on April 29, 2015, to close at $31.30 per share on April 30, 2015.

57. On July 8, 2015, the *Qui Tam* Action was unsealed, revealing that since at least 2010, the Company was engaged in a kickback scheme and off-label marketing of certain of its PAD Systems in order to increase sales and inflate the Company's value.

58. On August 5, 2015, the Company issued a press release disclosing its fourth quarter fiscal 2015 financial results. Therein, the Company announced quarterly revenue of $48.5 million—below the Company's projected range of $49.0 million to $50.5 million

previously announced on April 29, 2015. The Company attributed the guidance miss to its continued sales force expansion efforts. The Company also provided guidance for the first quarter of fiscal 2016, forecasting revenue of between $48.5 million and $50.0 million and a net loss of between $12.0 million and $12.9 million, or $0.38 to $0.40 per share.

59. Addressing the Company's fourth quarter fiscal 2015 financial results, Defendant Martin stated in relevant part:

> Significant progress continued on our sales optimization plan in the fourth quarter. Cross training of our sales force to sell both peripheral and coronary products advanced with over 140 representatives now trained. Productivity goals were also achieved per representative, further validating that our dual application sales approach will provide attractive growth and lead to profitability in the future. The related sales force expansion, however, fell short of our targets, resulting in an average of approximately 9 open positions during the quarter. As a consequence, revenue was slightly below our expectations. We have taken actions to reach our planned sales force level by the end of the fiscal 2016 first quarter and beyond.

60. On this news, the price of Company shares declined $6.13 per share, or nearly 21%, from a close of $29.35 per share on August 5, 2015, to close at $23.22 per share on August 6, 2015.

61. On October 7, 2015, the Company issued a press release disclosing first quarter fiscal 2016 preliminary financial results. Therein, the Company announced preliminary quarterly revenues of $43.9 million, which was below the Company's August 5, 2015 guidance of between $48.5 million and $50.0 million for the quarter. The Company also announced preliminary quarterly net losses of between $13.1 million and $13.9 million, or $0.41 to $0.43 per share, which exceeded the Company's prior net loss guidance of $12.0 million to $12.9 million, or $0.38 to $0.40 per share. The Company once more attributed the disappointing results to the challenges it faced in expanding and optimizing its sales force.

62. Addressing the Company's preliminary first quarter fiscal 2016 financial results, Defendant Martin stated in relevant part:

> We continued to make progress on our sales optimization strategy to significantly expand our sales organization, while cross training representatives to sell both peripheral and coronary applications. However, as our recent results suggest, some aspects of the transition have been challenging. After a thorough review, we believe we have taken the right steps to address the immediate challenges and continue to expect the vast majority of the optimization effort to be completed by the third quarter of this fiscal year.

63. On this news, the price of Company shares declined $3.01 per share, or more than 18%, from a close of $16.63 per share on October 7, 2015, to close at $13.62 per share on October 8, 2015.

64. On November 4, 2015, the Company issued financial results for the first quarter of fiscal 2016 in line with the preliminary results announced one month earlier on October 7, 2015, disclosing quarterly revenues of $43.9 million and a net loss of $13.3 million, or $0.41 per share. The Company also provided guidance for the second quarter of fiscal 2016, forecasting revenues in a range of $42.5 million to $44.0 million.

65. On January 21, 2016, the Company issued a press release disclosing its second quarter fiscal 2016 financial results. Therein, the Company reported revenue of only $41.4 million, below the Company's prior revenue guidance of between $42.5 million and $44.0 million. The Company again attributed the guidance miss to the "continued effects of the sales force transition."

66. Addressing the Company's first quarter fiscal 2016 financial results, Scott Ward, the Company's Chairman and Interim Chief Executive Officer,[4] stated in relevant part:

> CSI's sales force expansion and implementation of a dual franchise model, selling both coronary and peripheral applications, has been challenging and is affecting our near term sales performance. We have gained meaningful insights during the transition and we are encouraged by recent progress. The sales organization continues to gain valuable experience and we have begun to adjust our sales model at the local level, adopting a more flexible approach where warranted.

67. On this news, the price of Company shares declined $3.72 per share, or nearly 30%, from a close of $12.46 per share on January 21, 2016, to close at $8.74 per share on January 22, 2016.

PLAINTIFF'S CLASS ACTION ALLEGATIONS

68. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased CSI common stock during the Class Period (the "Class"). Excluded from the Class are Defendants, directors and officers of CSI, and their families and affiliates.

69. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. According to the Company's 2015 Annual Report filed with the SEC on August 27, 2015, CSI had more than 32 million shares of stock outstanding, likely owned by thousands of persons.

[4] Scott Ward was appointed Interim Chief Executive Officer effective December 1, 2015 as a result of Defendant Martin taking a medical leave of absence. Defendant Martin has retained his position as the Company's Chief Executive Officer.

70. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class which predominate over questions which may affect individual Class members include:

(a) Whether Defendants violated the Securities Exchange Act;

(b) Whether Defendants omitted and/or misrepresented material facts;

(c) Whether Defendants' statements omitted material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading;

(d) Whether Defendants knew or recklessly disregarded that their statements were false and misleading;

(e) Whether the price of CSI stock was artificially inflated; and

(f) The extent of damage sustained by Class members and the appropriate measure of damages.

71. Plaintiff's claims are typical of those of the Class because Plaintiff and the Class sustained damages from Defendants' wrongful conduct.

72. Plaintiff will adequately protect the interests of the Class and has retained counsel who are experienced in class action securities litigation. Plaintiff has no interests which conflict with those of the Class.

73. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

LOSS CAUSATION/ECONOMIC LOSS

74. Defendants' wrongful conduct, as alleged herein, directly and proximately caused the economic loss suffered by Plaintiff and the Class. The price of CSI's common stock was artificially inflated throughout the Class Period by Defendants' false and misleading statements,

and significantly declined when the misrepresentations made to the market, and/or the information alleged herein to have been concealed from the market, and/or the effects thereof, were revealed, causing investors' losses. As a result of their purchases of CSI common stock during the Class Period, Plaintiff and other members of the Class suffered economic loss, *i.e.*, damages, under the federal securities laws.

SCIENTER ALLEGATIONS

75. During the Class Period, Defendants had both the motive and opportunity to commit fraud. They also had actual knowledge of the misleading nature of the statements they made, or acted in reckless disregard of the true information known to them at the time. In so doing, Defendants participated in a scheme to defraud and committed acts that operated as a fraud or deceit on purchasers of the Company's common stock during the Class Period.

Applicability of Presumption of Reliance: Fraud on the Market Doctrine

76. Plaintiff will rely upon the presumption of reliance established by the fraud-on-the-market doctrine in that, among other things:

(a) Defendants made public misrepresentations or failed to disclose material facts during the Class Period;

(b) The omissions and misrepresentations were material;

(c) The Company's common stock traded in an efficient market;

(d) The misrepresentations alleged would tend to induce a reasonable investor to misjudge the value of the Company's securities; and

(e) Plaintiff and other members of the Class purchased CSI common stock between the time Defendants misrepresented or failed to disclose material

facts and the time the true facts were disclosed, without knowledge of the misrepresented or omitted facts.

77. At all relevant times, the market for CSI common stock was efficient for the following reasons, among others: (i) as a regulated issuer, CSI filed periodic public reports with the SEC; and (ii) CSI regularly communicated with public investors through established market communication mechanisms, including through regular disseminations of press releases on major news wire services and through other wide-ranging public disclosures, such as communications with the financial press, securities analysts, and other similar reporting services.

NO SAFE HARBOR

78. Defendants' "Safe Harbor" warnings accompanying their forward-looking statements issued during the Class Period were ineffective to shield those statements from liability.

79. Defendants are also liable for any false or misleading forward-looking statements pleaded because, at the time each forward-looking statement was made, the speaker knew the forward-looking statement was false or misleading and the forward-looking statement was authorized and/or approved by an executive officer of CSI who knew that the statement was false. None of the historic or present tense statements made by Defendants were assumptions underlying or relating to any plan, projection, or statement of future economic performance, as they were not stated to be such assumptions underlying or relating to any projection or statement of future economic performance when made, nor were any of the projections or forecasts made by defendants expressly related to or stated to be dependent on those historic or present tense statements when made.

FIRST CLAIM
Violation of Section 10(b) of the Exchange Act and Rule 10b-5
Promulgated Thereunder Against All Defendants

80. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

81. During the Class Period, CSI and the Individual Defendants carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing public, including Plaintiff and other Class members, as alleged herein; and (ii) cause Plaintiff and other members of the Class to purchase CSI common stock at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, these Defendants, and each of them, took the actions set forth herein.

82. CSI and the Individual Defendants: (i) employed devices, schemes, and artifices to defraud; (ii) made untrue statements of material fact and/or omitted to state material facts necessary to make the statements not misleading; and (iii) engaged in acts, practices, and a course of business which operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to maintain artificially high market prices for CSI common stock in violation of Section 10(b) of the Exchange Act and Rule 10b-5. These Defendants are sued either as primary participants in the wrongful and illegal conduct charged herein or as controlling persons.

83. Defendants had actual knowledge that their Class Period statements were materially false and misleading.

84. As a direct and proximate result of these Defendants' wrongful conduct, Plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's common stock during the Class Period.

SECOND CLAIM
Violation of Section 20(a) of
The Exchange Act Against the Individual Defendants

85. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

86. The Individual Defendants acted as controlling persons of CSI within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their high-level positions, and their ownership and contractual rights, participation in and/or awareness of the Company's operations and/or intimate knowledge of the false statements issued by the Company and disseminated to the investing public, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements which Plaintiff contends are false and misleading. The Individual Defendants were provided with or had unlimited access to copies of the Company's reports, press releases, public filings, and other statements alleged by Plaintiff to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

87. In particular, each of the Individual Defendants had direct and supervisory involvement in the day-to-day operations of the Company and therefore is presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

88. As set forth above, CSI and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their

positions as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act.

89. As a direct and proximate result of these Defendants' wrongful conduct, Plaintiff and other members of the Class suffered damages in connection with their purchases of the Company's common stock during the Class Period.

WHEREFORE, Plaintiff prays for relief and judgment, as follows:

(a) Determining that this action is a proper class action under Rule 23 of the Federal Rules of Civil Procedure;

(b) Awarding damages and equitable relief in favor of Plaintiff and the other Class members against all Defendants, jointly and severally, in an amount to be proven at trial, including interest thereon;

(c) Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

(d) Such other and further relief as the Court may deem just and proper.

JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

Dated: March 4, 2016

Respectfully submitted,

CHESTNUT CAMBRONNE

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